International Journal of Human and Society (IJHS)

P-ISSN: 2710-4966	E-ISSN: 2710-4958
Vol. 3. No. 03 (July-Sep) 2023	Page 15-21

CHALLENGES TO PAKISTAN ECONOMY DURING ZARDARI ERA, 2008-2013: AN OVERVIEW

Shaista Gohar	Lecturer, Department of Pakistan Studies, Abdul Wali Khan University Mardan, Khyber Pakhtunkhwa, Pakistan. shaistagohar@awkum.edu.pk
Sumayya	Visiting Lecturer, Department of Pakistan Studies, AWKUM, Khyber Pakhtunkhwa, Pakistan. Summaykhan1995@gmail.com
Hasnain Sajid	Visiting Lecturer, Department of Pakistan Studies, AWKUM, Khyber Pakhtunkhwa, Pakistan. hussychd@gmail.com

Abstract: *Pakistan's economy from its founding, has had a mixed record. Various economies have quite different antecedents. The economic indices during the Zardari era did not show much development. Major economic difficulties were present when the PPP-led government took office, many of which were ingrained and long-standing. In this research article firstly, a historical overview was presented to understand the economic situation in different eras. And then this article seeks to highlight those economic challenges and look at how to address those challenges during Zardari era, 2008-2013. The data is mostly collected from secondary sources like books, research articles, published government reports and internet sources.*

Keywords: Pakistan Economy, Zardari Era, Inflation, Foreign Direct Investment (FDI), Foreign Debt, Unemployment, Energy Crisis, Low Revenue

Introduction

The Zardari era was highly problematic because a military ruler had just vacated the position of president. In light of Pakistan's complex social, economic, and political issues, restoring democracy and completing tenure were significant challenges. Nonetheless, President Zardari successfully ended Pakistan's first democratic phase and preserved democracy for five years. This was a huge accomplishment because it had never happened before (Anwar, Abbas & Ashfaq, 2017). In addition to all of this, Zardari also removed numerous impurities brought on by the martial law regime. A true political improvement of the nation was made possible by Zardari's partnership with opposition parties. First, he granted the parliament presidential powers. The 18th amendment, together with the 19th and 20th amendments, was his most significant constitutional amendment. The provinces now have the political and economic independence that is the cornerstone of a genuine democracy thanks to the 18th amendment (Qureshi, 2010). One can still assert that this amendment represents a step towards the true spirit of democracy even though the results of it have not yet been completely realized. Only to a limited degree did opposition play a constructive role. Zardari, despite the mixed accomplishments of this era, protected the fledgling democracy from malicious plans to undermine it. To enhance the political system of the nation, numerous further changes were also implemented (Anwar, Abbas & Ashfaq, 2017). In short, it was a politically prosperous time period. During this time, Pakistan's economy had a number of positive and negative fluctuations. During the PPP administration, the country was dealing with significant economic problems. Economic conditions required difficult macro and micro decisions. The stock markets reached previously unheard-of heights as a result of bold decisions. In conjunction with the IMF, a macroeconomic stabilization program was also launched at this time (Tanoli, n.d).

Historical Overview of Pakistan Economy

From its founding, Pakistan's economy has had a mixed record. In accordance with the interests of economic and political actors, many economies operate under various government forms and have historically differing historical origins.

In the early years of Liaqat Ali Khan's presidency, a five-year plan was prepared using the "Theory of Cost of Production Value". This included elements of the trickle-down economic system as well. For the purpose of igniting the nation's economic engine, the State Bank of Pakistan was founded in 1948. As the Korean War broke out on June 25, 1950, Pakistani traders provided raw materials to anti-communist countries, which boosted the country's economy (Zaidi, 2005). The five-year plan, however, failed because Liaqat Ali Khan's murder slowed down the expansion. The plan was proposed in 1955, and because Pakistan's economy is primarily agro-based, this time it was concentrated on agricultural development. This time, the approach was hampered by a lack of technical expertise and fundamental information/data (Aslam,2011).

Field Marshal Ayub Khan was the first military leader to enter Pakistani politics and assume complete power in October 1958. The economic prosperity of the first dictatorship displayed optimistic patterns, gaining the nickname "Golden Sixties" (Saeed, 2004). The second five-year plan, which prioritised significant industrial expansion, literary and scientific advancement, was reintroduced during the reign of Ayub Khan. Pakistan chose to base its development on industry and has invested in the production of heavy machinery and autos. GDP increased from 3% to 6%, while the manufacturing sector experienced 9% annual growth. The agriculture sector grew by 4% as a result of the use of Green Revolution technology. In 1969, Pakistan's exports were greater than those of Malaysia, Thailand, and Indonesia put together. Another distinguishing feature of the era is the construction of the massive Tarbela and Mangla dam projects (Zaidi, 2005).

When Zulfiqar Ali Bhutto (PPP) became prime minister in 1971, he implemented nationalization programs. In January 1972, the Nationalization process got under way. He nationalized businesses, financial institutions, insurance firms, and institutions of higher learning under this strategy. It damaged the confidence of both domestic and foreign investors, undermining Pakistan's progress towards modernization and a more rapid pace of economic growth as a result (Saeed, 2004).The 1970 oil price shock severely hurt Pakistan's economy, and the country's growth rate dropped from 6% in the 1960s to 3.7% in the 1970s. In addition, the fourth five-year plan was shelved after Dhaka, East Pakistan, fell, and this incident had expensive repercussions (Aslam,2011). Inflation from 1971 to 1977 was 16% on average. With a 3% growth rate, the industrial sector continued to expand slowly, and relative to earlier eras, income inequality increased. The private sector was at odds with the large-scale manufacturing sector, which was in a typical state in the late 1950s and 1960s (Zaidi, 2005).

Gen. Zia-Ul-Haq perpetrated yet another attack on democracy, but this time it was justified in the name of Islam. Pakistan took part in the effort to topple the Soviet Union in Afghanistan under his reign, and as a result, it received significant economic support from the allies (Saeed, 2004). In spite of the severe social consequences, the economy began to improve, and in the fifth five-year plan (1978–1983), an effort was made to stabilize Pakistan's economy and raise the standard of life for the country's poorest citizens. Throughout the first part of his administration, average yearly GDP growth stayed at 6.6%, while GNP growth was 7.6%. The second half saw an increase in worker remittances, which helped to boost foreign exchange (Hussain, 1999).

Zia stressed his planning-related policies. Pakistan grew to be self-sufficient in producing staple foods. Later in his reign, in the late 1980s, strategies were switched to the private sector and concentrated on boosting investment and saving rates, while also addressing concerns like low agrarian productivity and reliance on imported energy (Saeed, 2004).

Nine different governments ruled Pakistan between 1988 and 1999. The stark decline in macroeconomic indices was mostly caused by the nation's high level of political unrest. The loss of Pakistan's credibility in the eyes of the world community was caused by a lack of political will to make timely and wise judgements as well as an inability to deal with distortions at the appropriate moment. In the first half of 1990's, the growth rate decreased to 4%. The country's total debt soared from $20 billion to $43 billion in May 1998 (Zaidi, 2005). The external debt expanded to 47.6% of GDP with an average annual growth rate of 8.1% during that time period, but the domestic debt increased more quickly and reached 49.1% of GDP. Because the manufacturing sector, which had been the main source of employment in the preceding ten years, did not do as well, poverty increased from 18% to 34%, and employment in the economy fell. Throughout the 1990s, double-digit inflation rates persisted. As a result, the 1990s were a particularly significant period in Pakistan's economic history (Hussain,1999).

Gen. Pervez Musharraf violated Article 6 of the 1973 Constitution when he overthrew the Nawaz government and declared martial law in Pakistan on October 12, 1999. The day was the darkest in democracy's history. But, if we examine the period from an economic perspective, the martial law era saw the beginning of several milestones and exceptional development rates (Tanoli, n.d). The legacy General Musharraf inherited greeted this third military ruler with a mountain of issues and challenges, including the military government's huge fiscal deficit, stagnating exports, weak balance of payments, low reserves, rising poverty and unemployment, and massive external and domestic debt. Due to low tax to GDP ratio and the fact that debt servicing and defence accounted for around 80% of government revenue, the government had limited room to raise spending levels. As a result, the economy was in bad shape overall. The 2000–2008 period saw increased economic growth and social affluence due to structural reforms and notable improvements in economic governance (Aslam,2011). The slow growth rates of the lost decade were increased from 2.1% to 7% in his very early years. Also, in 2005, Pakistan's annual GDP at constant prices reached 8.95%, a significant milestone in the nation's economic history. The amount of foreign exchange reserves increased to fund imports for six months, compared to the previous administration's availability of merely three weeks' worth of imports (Zaidi, 2008). Foreign reserves climbed to $17 billion from $700 million when he arrived. He created an inviting and appropriate environment for international investors to invest in Pakistan. An estimated $14 billion in foreign private capital inflows supported the economy, and investment increased at a rate of 23% of GDP. FDI in 2000-2001 remained incredibly low at $481 million. Yet, over the next 8 years, the same head recorded a remarkable $5152.80 million, reinforcing the idea that Musharraf's government provided a conducive climate for foreign investment (Tanoli, n.d).

In terms of banking profitability, Pakistan was ranked third, while the Karachi Stock Exchange was acknowledged as the best Asian market. Our large-scale manufacturing sector was at a 30-year high, and the construction industry was at a 17-year high. During the previous dictatorial rule, many employments were created. The information technology (IT), telecommunications, and CNG sectors all saw substantial expansion during his period, leading in the establishment of 45,000 CNG jobs, 90,000 telecommunications jobs, and 1.3 million IT jobs (Aslam,2011). Programs under President Pervez Musharraf had a strong social focus. His leadership increased the literacy rate to 53%, established 18 public institutions, and established 9 prestigious engineering schools. Statistics on poverty show a notable 10% drop. Electronic media received his support and freedom, and this industry has never been more independent. So, the performance of macroeconomic indicators under President Musharraf's military rule revealed favourable and well-growing tendencies, illuminating a sound status of Pakistan's economy (Tanoli, n.d).

Challenges to Pakistan Economy during Zardari Era

The Pakistani people gave Asif Ali Zardari their approval to create their administration. He was Pakistan's first democratically elected president and his administration was the first in the country's history to serve its full five-year constitutional term before being succeeded by Mamnoon Hussain. The economy was well-decorated when former President Pervez Musharraf left office, and it was difficult for the recently elected administration to maintain the current trends. The PPP Government, however, was confronted with the following significant economic issues when it took office, many of which were ingrained and long-standing.

Double Digits Inflation: A persistent increase in the cost of goods and services, together with a decline in the purchasing power of money, is what is meant by inflation (INF). The state bank controls inflation to prevent economic growth from being diverted. The economy of Pakistan is also negatively impacted by inflation. President Zardari's administration was regarded as the worst in terms of inflation after the years from 1972 to 1977. With the exception of the final three months of his presidency, inflation stayed in the double digits throughout the duration(Anwar, Abbas & Ashfaq, 2017). The inflation rate in Pakistan was enormous, coming in at 25.3%. The cost of living increased quickly as a result of the consumer price increase, which increased by 80% in just five fiscal years. People were severely impacted, especially those with restricted or fixed incomes. Nonetheless, a strict monetary policy was implemented to handle the inflation issue, and several other further measures were taken to alleviate the fiscal imbalance problem in Pakistan (Umair, n.d). All these wise decisions resulted in an almost 50% drop in inflation in 2009, a 4.3% reduction in the budget deficit as a percentage of GDP, a 5.3% reduction in the current account balance as a percentage of GDP, and an accumulation of about $13 billion in foreign exchange reserves. The primary reason for the decline in the fiscal deficit was the reduction in spending on development and oil subsidies (Saleem, 2013).

Increase in Foreign Debt: From 2008 to 2013, Pakistan's foreign debt increased to $65 billion (2012), from just $45 billion under the previous administration. Pakistan became to be the third-largest debtor in the region under the PPP regime. Ineffective tax laws and a notably low tax-to-GDP ratio were to blame (Umair, n.d). Only 1.8 million of the 190 million persons in the world paid taxes. The unreliable power supply, severe inflation, and low levels of productivity all contributed to a surge in foreign debt. These factors ultimately contributed to high levels of foreign debt. Our debt to GDP ratio increased to 60% in 2012 from a low of 55% in 2008 (Saleem, 2013).

Rising Rate of Unemployment: The unemployment rate decreased noticeably during President Zardari's administration, from 7.8% in 2000–2001 to 5.1% in 2006–2007(Aslam,2011), but it gradually rose to a peak of 6% in 2012–2013.The unemployment rate increased barely 1% during the whole Zardari Government, from 5.2% in 2008 to 6.2% in 2013. As a result of fewer economic activities, the country's rising unemployment rate revealed the slowing economy throughout these five years. It is mostly because more people join the labour force as the population grows. A significant fraction of those just entering the workforce would remain unemployed if economic activity in the economy were to decline, which would have an impact on the nation's GDP per capita (Umair, n.d).

Fall in Foreign Direct Investment (FDI): Foreign direct investment is defined as an investment "made by a firm or entity situated in one nation, into a company or entity based in another one" (FDI). FDI is significantly different from indirect investments like portfolio flows, which involve foreign entities purchasing equities listed on a nation's stock exchange. Any economy is said to need foreign direct investment (FDI) to grow its physical capital, provide more job opportunities, and interact with the rest of the globe. Foreign Direct Investment, which the PPP government inherited at $5152.80 million, decreased to $597 million in FY 2012. Moreover, FDI inflows experienced a negative growth of 38% in 2012–13 (Nawaz, 2014).

The country's sluggish economic activity, urban violence, contradictory economic policies, bureaucratic bureaucracy, and political unpredictability all contributed to the decline in FDI. While analyzing the causes of the reduction in FDI, the energy crisis cannot be disregarded. Corrective policy measures were crucial. The concentration of FDI in the domestically focused electricity sector, which leads to high foreign exchange costs and remittances, was still another significant issue (Umair, n.d).

Low Revenue Collection and Lack of Tax Reforms: Every government would be unable to perform its duties unless it increased income or cut non-development spending. However, the democratic government was still unable to bring in enough money to cover its expenses. The FBR targets were adjusted yearly due to delays in the taxation measures needed for tighter fiscal control. The sharp decrease in GDP growth rate in the ensuing years made the issue worse (Qureshi, 2010).

The primary source of funding for the government's expenses is taxes. The PPP government's five years in office were not successful. Zardari's government increased taxes to 9.9 percent of GDP in FY 2008. Due to poor policies and a lack of tax adjustments, it fell to 8.9% in FY 2011. The region's potential for future growth was also in risk due to the lowest tax to GDP ratio in the area. The increased state debt was placing a pressure on revenue as interest rates were increasing more swiftly(Anwar, Abbas & Ashfaq, 2017).

Nonpayment of Taxes: The political aspect of tax collection is readily apparent from the fact that elected officials and members of national and provincial assemblies paid very little in taxes. These elites and lobbies, who have their own perfidious interests to serve, are one of the main obstacles to the country's tax reformation (Cheema, 2011). One of the main problems was the elites' low tax rates. Politicians and decision-makers have not been providing a suitable example for the collecting of taxes. The country's tax collection system was sadly lacking in transparency and regularity. The general consensus was that wealthy individuals did not pay taxes and that the full tax burden was placed on the average person (Anwar, Abbas & Ashfaq, 2017).

The elites must pay their fair share of the nation's taxes before the budget deficit goals can be met. According to the tax dictionary for legislators, Pakistani legislators paid a total of Rs 250 million in taxes in 2013, making up around 0.03 percent of the country's total tax revenue. 42 percent of the 450 lawmakers during the fiscal year 2012–2013 did not pay income tax (Saleem, 2013).

Large Scale Floods and High Oil Prices: The "once in a century" floods that struck the nation in July 2010 were arguably the most damaging incident of the PPP Government's term in office. Large-scale flooding also occurred in the summers of 2011 and 2012 (Haider, 2013). Around 10% of the population, 20 million people was directly impacted by the worst floods in 2010. Another flooding that affected 9.2 million people in Sindh province in 2011 added to the devastation caused by the earlier tragedy. The World Bank and Asian Development Bank estimated that the floods caused $14 billion in damage and that it would take another $10 billion to rebuild. The 2010 flood, high oil prices on the global market, and the subsequent global economic slump all contributed to the worsening of the economic conditions. Due to a balance of payment crisis brought on by an increase in the price of petroleum internationally and a disastrous flood that cost $10.85 billion, the economy's growth declined to 2.4 percent between 2008 and 2013 (Umair, n.d).

Terrorism and Militancy: The fight against terrorism presented Pakistan's economy with additional difficulties. The economic survey from 2014–2015 estimates that the total cost of the fight against militancy was $106.98 billion. From 2008 to 2012, the budget deficit was 9% of the GDP. Due to the country's struggle with terrorism and maintaining law and order, investments in Pakistan have suffered significantly. From $5.4 billion in 2007–2008 to $1.57 in 2011–2012, this industry had a decrease (Haider, 2013). The PPP government's privatization strategy helped boost international investors' confidence in Pakistan to some extent (Nawaz, 2014).

Energy Crisis: The fragile economy of Pakistan is currently under jeopardy from a severe energy crisis. The considerable production capacity damage caused by the energy crisis led to reduced exports and lower foreign revenues (Aslam, 2011). Since 2008, there has been a severe energy crisis that has cost the GDP 2.5%. Also, the energy crisis became the primary factor in the reduction of foreign direct investment (FDI). Agriculture, Pakistan's largest economic sector, has seen its growth reduced by 3 to 4% as a result of the country's regrettable energy problem (Nawaz, 2014).

Corruption and Mismanagement: The pervasive corruption in this area was another important factor. According to the Transparency International Corruption Report 2014, Pakistan was rated 126th out of 175 countries. The PPP government shattered all of the records of corruption and poor management. The then-president of Pakistan, Asif Ali Zardari, requested Rs. 10 lacs per day or Rs. 36 crore per year, for staff benefits and living expenses. He also asked for Rs. 22 crore per year for his international jet, or Rs. 6 lacs per day. Yousif Raza Gillani, who was Pakistan's prime minister at the time, sought Rs. 33 lac per day, or Rs. 10 crore per month, or Rs. 120 crore per year (Haider, 2013). According to one of the surveys conducted by the Pakistani government in 2007, there are currently 4011 public sector institutions operating throughout the country. All of these institutions perform poorly and lose between 3 and 4 percent of GDP. The capacity of public sector institutions remained shocking during the Zardari administration. 360 billion rupees, or Rs. 100 crores, are lost annually by Pakistan Airlines, Pakistan Railways, Pakistan Steel Mills, PAPCO (Pakistan Electric Power Company), and Pakistan Agriculture and Storage and Service Companies; this amount could maintain 10,000 schools and 10,000 hospitals. Circular debt was produced by this institution's increasing subsidies (Nawaz, 2014).

Government Measures

Financial and economic changes that were implemented to address the aforementioned issues were, to a certain extent, successful. Among these tactics are austerity measures, resource optimization, corporate restructuring in the public sector, and reforms in the electricity sector. In order to raise an additional Rs. 53 billion before the end of the fiscal year 2010–11, the government adopted interim tax policy adjustments through a Presidential ordinance (Aslam,2011).

The actions were taken as follows:

• On agricultural inputs including tractors, insecticides, and fertilizer, the sales tax discharge was withdrawn. Prior to then, 17% GST was applied to these.

• The non-essential item special excise duty rate was increased from 1% to 2.5%.

• The gross and net accumulation of direct duties climbed by 31.3% and 22.6%, respectively, over the first ten months of 2011–12.

The main causes of this increase in income were withholding expenses, intentional installments, and interest accrual. The gross and net collection of backhanded duties increased by 23.1% and 24.9%, respectively, between July and April 2011–12 It has made up 62.9% of all FBR charge revenues. Contrarily, the GDP's proportion of the agriculture sector fluctuated over the time, ranging from 21.3% in fiscal year 2008 to 21.8% in 2009 to 21.4% in 2012. Pakistan's national savings were 13.2 in 2010–11; the following year, they decreased to 10.7%. In 2011–12, public investment as a percentage of GDP increased from 2.9% to 3.0% (Haider, 2013).

Conclusion

In short, the country faced numerous issues during the Zardari era, including double-digit inflation, rising foreign debt, a decline in FDI, rising unemployment rates, poor governance, corruption, ignoring tax reforms, which reduced the country's ability to generate revenues, ignoring structural reforms, terrorism, and the energy crisis. As a result, every economic activity was in danger of extinction. These problems push the economy into its worst scenario. Due to the recessionary trends Pakistan was experiencing at the time, all economic sectors were operating at their lowest levels. The governmental measures were not sufficient to overcome the economic problems. Pakistan requires politically driven, courageous, and transparent leadership in order to emerge from its current economic crisis and resume its long-delayed economic progress.

References

Anwar, S., Abbas, Q., & Ashfaq, M. (2017). Introduction to the Economy of Pakistan. https://www.researchgate.net/publication/321037817_Introduction_to_the_Economy_of Pakistan

Aslam, M. (2011). Pakistan Economy in retrospect, 1947-2010. Ferozsons (Pvt) Ltd, Lahore, Pakistan.

Cheema. U (2011} *Represent without Taxation_* Center for Peace and development initiatives. www.cpdi.pk .org

Haider, M. (2013, March 16) "Five Years On: A Poorer, Hungrier Nation -." DAWN.COM. https://www.dawn.com/news/795816/five-years-on-a-poorer-hungrier-nation

Husain, I. ((1999), *Pakistan the Economy of the Elitist State,* Oxford University Press, Karachi.

Nawaz, R, M. (2014). An analysis of linkage between foreign direct investment and GDP per Capita in Pakistan. http://www.divaportal.se/smash/get/diva2:703232/ATTACHMENT01.pdf

Qureshi, N.M (2010) Political Instability and Economic Development: Pakistan Time-Series Analysis *International Research Journal of Finance and Economics Issue 56. Available at;https://www.academia.edu/31731501/Political_Instability_and_Economic_Development Pakistan_Time_Series_Analysis*

Saeed, K.A. (2004). The Economy of Pakistan. Oxford University Press, Karachi, Pakistan.

Saleem, F. (2013) *Capital Suggestions,* Karachi: Jahangir publishers,

Tanoli, J. R. (n.d) Comparison of Economic Growth under Democracy and Dictatorship: Comparing Musharraf Era to the Post 2007 Regimes. www.cscr.pk

Umair, M. (n.d.). "Economic Profile of Pakistan 1947-2014". Academia.edu. Also available at; https://www.academia.edu/6253583/Economic_Profile_of_Pakistan_1947_2014

Zaidi, S. A. (2005). Issues in Pakistan's Economy. Oxford University Press Karachi. Also available at; https://global.oup.com/academic/product/issues-in-pakistans-economy9780199401833?cc=us&lang=en&

Zaidi, S. A. (2008). *The political economy of military rule in Pakistan: the Musharraf Regime*. Institute of South Asian Studies. Also available at; https://www.isas.nus.edu.sg/papers/31-the-political-economy-of-military-rule-in-pakistan-the-musharraf-regime/